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SUBJECT: TFH01: PROSPECTIVE SCENARIOS FOR HONDURAS

Classified By: AMBASSADOR HUGO LLORENS FOR REASONS 1.4 (B & D)

1. (C) Signature of the San Jose Accord by Honduran President Jose Manuel "Mel" Zelaya and de facto regime leader Robert Micheletti is the optimal solution to the political crisis besetting Honduras since the June 28 coup, and the Department and the Mission has worked hard to achieve this objective. Efforts by the United States and the rest of the international community must remain focused on persuading both parties to sign this agreement as soon as possible. However, time may be running out. National elections are scheduled to be held on November 29 and these are increasingly becoming the focus of supporters of the legitimate government and the de facto regime. De facto regime supporters have worked vigorously to frame the domestic political discourse around the San Jose Accord as a question of capitulation to external pressure, rather than as a mutually-acceptable solution to a crisis. Regime supporters maintain the elections are critical to Honduras' emergence from crisis but Zelaya supporters have an interest in disrupting them, in the absence of San Jose. While we remain firmly focused on achieving the success of the San Jose process, the United States must also begin prepare for contingencies if we fall short of our objective. This cable provides alternative scenarios the Mission foresees as possible for the remainder of 2009 and early 2010, which may be useful to policymakers and analysts.

Key Variables in a Complex Equation

2. (C) The following is a list of the most important elements to building plausible scenarios, and an explanation of how they might influence events of the coming months.

A. Micheletti and his team: De facto President Roberto Micheletti is a through-and-through politician who has coveted the presidency for a very long time, and may have seen 2009 as his last chance to get it. In the primaries, he showed he would resort to almost any deal-making to get the nomination, including a political alliance with President Zelaya, but lost soundly to the younger, more charismatic Elvin Santos. While we do not believe Micheletti was the brainchild of the coup, he was all too willing to support it and step into the role of president. He is unlikely to take any action now that would shorten his term in office. Nonetheless, he is also a pragmatic politician who has always shown himself willing to make a deal when he saw it was to

his advantage. Those in his inner circle have proven themselves to be thoroughly uncreative and provincial, and may be even more resistant than Micheletti to relinquishing power now that they have tasted it.

1B. President Zelaya: While Zelaya has stated repeatedly that he is ready to sign the accord, he has also been prone to unhelpful public statements that make reaching a resolution more difficult. If the accord is not signed before elections, Zelaya may become unwilling to accept it without additional incentives, either public or private. If he is reinstated, he will almost certainly resume an erratic pattern of behavior that will test the strength of the democratic institutions and the resolve of the international community to support the terms of the accord. Most disruptive would be if he resumed his rhetoric supporting a constituent assembly, which is most threatening to the Hondurans who currently oppose his return.

1C. The "Resistance" movement: The movement opposing the coup and advocating the return of President Zelaya is a very broad coalition ranging from sincerely democratic-minded reformists to radicals who see the crisis as an opportunity to accomplish an extreme lurch leftward in Honduran politics, and who have no interest in democratic principles. A small but potentially significant element of the movement likely sees greater opportunity in continued crisis than resolution, and may try to derail a resolution if it appears likely to occur.

1D. Other opinion builders: Most important are those outside the Micheletti "team," but who have favored the coup. These

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include the main media owners (Carlos Flores Facusse, Rafael Ferrari, and Jorge Canahuati), Roman Catholic Cardinal Oscar Andres Rodriguez and other influential religious leaders, the business community, the Armed Forces, the Congress, the six presidential candidates, and other political figures such as the association of municipalities (AMHON). Others would be the Attorney General and the Supreme Court magistrates who have opposed the return of President Zelaya and who would have to provide a legal seal of approval to any agreement reached as well as agreeing to taking no action against either side if an amnesty is agreed upon. If enough of these figures can openly support a resolution, it could shift the public discourse and political winds. They have the greatest stake in what happens after the election and inauguration day, and are more likely to act based on a risk-management approach than on principle.

1E. External actors: These can be the forces in favor of democracy and stability in Honduras, such as the United States, OAS and neighboring countries; or those opposed to a return of stability, such as Hugo Chavez. The undemocratic actors will work hard to upset any agreement, requiring the supporters of democracy to maintain focus even after an accord is reached.

1F. The Verification Commission: If the accord is reached and implemented, the commission will play a vital role in restoring constitutional order and political stability. If the commission is appears weak, Zelaya may seek to take advantage if the accord is violated, the commission must have the resolve to take a firm stance and ensure that democracy is maintained and that the political transition to an elected successor happens on schedule.

The Scenarios

13. The scenarios below are illustrative of the evolutions we may encounter in the months ahead. We may see various combinations of the developments set forth. The statistics and dates are merely illustrative.

Scenario A: Optimal

¶4. (C) Following the travel of five of the six presidential candidates to San Jose on September 16 to meet with Costa Rican President Oscar Arias, the candidates as a group exert pressure privately on Micheletti to sign the Accord. Micheletti perceives it is the best way out for him and for his country. The de facto regime provides President Arias with concrete proposals to be included in the Accord ensuring President Zelaya's compliance. Business leaders and Congress are convinced that the guarantees make Zelaya's return feasible. The de facto regime agrees that Zelaya will not be jailed upon his return to Honduras, and any prosecution against him and his cabinet would be held off until after the inauguration on January 27, 2010. Zelaya and Micheletti sign the Accord and Zelaya returns to Honduras.

¶5. (C) Zelaya supporters engage in mass gatherings to welcome him back, calling for a constituent assembly and punishment for Micheletti regime supporters. There is unease among de facto supporters despite the guarantees in the Accord, but they do not engage in any counter demonstrations. A restored President Zelaya resumes some of the rhetoric he habitually utilized before the coup, even alluding to a Constituent Assembly to revise the Constitution. His statements increase the unease of his opponents. De facto regime supporters call on the international community to ensure Zelaya's compliance with the San Jose Accord. The international community, and in particular the Verification Commission, take a clear, strong stand that Zelaya's disruptive behavior will not be tolerated and that he risks violating the terms of the amnesty. Likewise, the commission warns that any extralegal action against Zelaya would result in a strong, unified response from the international community and donor nations.

¶6. (C) As a result of this clear international response, Zelaya fully adheres to the San Jose Accord, and his opponents are reassured. The OAS reinstates Honduras'

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membership status and promises an observer mission for elections. International assistance to Honduras is resumed in full.

¶7. (C) Zelaya's return helps reunite the Liberal Party and Elvin Santos' campaign picks up steam. His youth, charisma, and good looks attract voters, especially among the approximately 500,000 young people who will be eligible to vote for the first time. Elections are held, as scheduled, on November 29. Elections are generally free of violence, transparent, and credible, and voter participation is high. Santos wins by a five percent margin with Porfirio "Pepe" Lobo coming in second place or, alternatively, Lobo wins by a five percent with Santos coming in second place. The inauguration on January 27, 2010 has the highest attendance by heads of state in Latin American history. The president-elect enjoys legitimacy in Honduras and overseas and is able to govern effectively, in part due to robust international support. He begins implementing responsible macroeconomic policies and initiates discussions with the International Monetary Fund (IMF) aimed at the resumption of a program for Honduras. Members of the international business community, who had been holding back on new investment while assessing the situation, regain confidence in the investment climate and begin investing at increased levels. As a result, public opinion shows a favorable opinion of the outcome and renewed trust in democratic institutions.

¶8. (C) Another version of this scenario is that Zelaya returns and forms a new political party, further splintering the Liberal Party, which goes the way of the Whigs in the United States. In such a case, Lobo is guaranteed victory.

¶9. (C) Democracy is restored to Honduras and the principle that the international community will not tolerate coups in Latin America is reinforced, not when the San Jose Accord is signed, but when it succeeds. Initial success in signing the Accord followed by weak enforcement would have a reverse effect, severely undermining U.S. support for democracy and rule of law efforts throughout the hemisphere. Such a development would have a detrimental effect on U.S. foreign policy.

Scenario B: Hybrid Favorable

¶10. (C) Following the travel of five of the six presidential candidates to San Jose on September 16 to meet with Costa Rican President Oscar Arias, the candidates as a group exert pressure privately on Micheletti to sign San Jose. They fail to persuade Micheletti to sign. Micheletti is implacably opposed to the return of President Zelaya. The Liberal Party becomes increasingly fractured. Zelaya supporters consistently attack Liberal Party candidate Elvin Santos and disrupt his campaign appearances. Venezuelan President Hugo Chavez publicly encourages a boycott of the Honduran elections. Zelaya supporters engage in a campaign to dissuade voters from going to the polls. Elections are held, as scheduled, on November 29, but they are beset by violence.

The majority of the international community does not send electoral observers. However, a handful of Central American governments and other nations do send delegations of observers. They are joined by the Carter Center and/or the National Democratic Institute and/or IFES. Porfirio "Pepe" Lobo wins the presidential election with 38 percent of the vote. He is trailed by Liberal Party candidate Elvin Santos with 20 percent and independent leftist candidate Carlos H. Reyes comes in third with 18 percent, signaling strong public displeasure with the unresolved crisis. All candidates accept Lobo as the winner, though the anti-coup movement claims the result is illegitimate. The international observers all agree that the elections, while imperfect, have rendered a credible result.

¶11. (C) President-elect Pepe Lobo publicly announces that he will only receive the presidential sash at his inauguration from President Zelaya and exerts pressure on Micheletti to sign the San Jose Accord giving Zelaya and his followers amnesty. Lobo convinces religious leaders and AMHON that return of the constitutional order is crucial if his

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government is to enjoy any legitimacy internationally and for Honduras to rejoin the community of nations. Religious leaders and AMHON speak out publicly on this issue and persuade a large majority of Hondurans to support Lobo's position. Micheletti capitulates to Lobo's pressure and the growing public acceptance for Zelaya's return. Lobo secretly promises Zelaya that he will grant him a pardon for all criminal charges pending against him once he is inaugurated as president and/or that one year to 18 months into his term he will propose Zelaya's failed a limited constitutional convention. Zelaya accepts his deal. (Another version would have Zelaya telling Lobo he would urge all his followers to vote for him for president if Lobo would propose a limited constitutional convention during his term of office which would allow Zelaya to run for president again; Lobo accepts the deal.)

¶12. (C) Zelaya returns to Honduras on January 10. Zelaya supporters engage in mass gatherings to welcome him back. There is unease among de facto supporters, but they do not engage in any public demonstrations. Lobo's inauguration is well attended by foreign government representatives. The United States and the international community resume assistance to Honduras. Lobo, once in office, decides that he does not have a strong enough mandate to implement prudent but potentially unpopular macroeconomic policies. He

indicates willingness to increase civil service wage increases. The government fails to reach agreement with the IMF on a program. Foreign investment resumes, but at lower levels.

¶13. (C) While diplomatic efforts by the international community fail, constitutional order is restored to Honduras. While Zelaya's pardon by Lobo reinforces the public sentiment that impunity and corruption still prevail in the country, the action in retrospect is seen as an important measure to preserve democratic institutions and enable the country to heal.

Scenario C: Hybrid Unfavorable

¶14. (C) Costa Rican President Arias' mediation efforts fail. President Zelaya does not return to Honduras. Venezuelan President Hugo Chavez publicly encourages a boycott of the Honduran elections. The electoral campaign period is marred by demonstrations by Zelaya supporters and by regime supporters. Clashes between the two factions occur. The demonstrations turn violent and civilian participants are injured and dozens are killed. Bombs are set off outside government buildings and media outlets. Elvin Santos is virtually impeded from campaigning by Zelaya supporters who disrupt his meetings and rallies. Elections are held, as scheduled, on November 29, but there is a low voter turnout. No governments and virtually no international NGOs send electoral observers, but local NGOs mobilize election observers nationwide. Despite the disorder in the period leading up to the elections, they are determined to be credible. Porfirio "Pepe" Lobo wins the election with over 40 percent of the vote. Lobo attempts to have Zelaya return to Honduras before the inauguration, but in the face of strong public opposition, fails. Most countries recognize the elections, but few send representatives to the inauguration; the U.S. does not. The United States informs Lobo its recognition of his government is contingent on his government not including any members or supporters of the de facto regime. Lobo complies and in late 2010 the United States resumes full assistance to Honduras. The EU and other nations follow suit. The United States makes de facto regime supporters whose nonimmigrant visas were suspended permanently ineligible to travel to the United States and finds additional regime supporters permanently ineligible.

¶15. (C) Democracy returns to Honduras, but is shaky. The coup and ouster of President Zelaya continue to polarize Honduran society and set a negative precedent for the region. Bilateral relations with the U.S. are weakened. In the short term, the Hondurans perceive the coup as successful, thereby undermining democratic institutions and rule of law. This weakness leads to an inability of the Lobo government to keep the peace or stave off the influence of narcotraffickers on society, and in the long term, further disruption of

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constitutional order and an erosion of public support for democratic institutions or rule of law throughout the region.

Honduras suffers significant economic setbacks as a result of political instability and growing criminality. There is little new investment, and some investors close or withdraw from existing projects. The Lobo government engages in populist economic policies in order to quell disorder, including wage increases for civil servants and fiscally unsustainable social programs. Foreign exchange reserves are depleted and the balance of payments situation deteriorates significantly.

The government decides not to seek an agreement with the IMF given the unlikelihood of success. Cooperation on counter-narcotics continues, but as the influence of narco-traffickers grows, there is public outcry for elimination of the U.S. presence at Soto Cano.

Scenario D: Catastrophic

¶16. (C) Costa Rican President Arias' mediation efforts fail. President Zelaya does not return to Honduras. The international community boycotts the Honduran elections. The electoral campaign period is marred by demonstrations by Zelaya supporters and by regime supporters. Clashes between the two factions occur. The demonstrations turn violent and civilian participants are injured and dozens are killed. Despite disruptions of Santos' campaign activities by Zelaya supporters, Santos manages to attract voters, especially among the approximately 500,000 young people who will be eligible to vote for the first time. The elections are held, as scheduled, on November 29. The results are close. Lobo claims victory with only a one or two percent margin over Santos, with "resistance" candidate Carlos H. Reyes a close third. Santos refuses to concede, and Reyes supporters reject the election as illegitimate. There are allegations of massive electoral fraud. The international community is unable to effectively engage on this issue because no governments or international NGOs sent election observers. Both Liberal Party and National Party supporters take to the streets to acclaim their candidate as the new president of Honduras. There are clashes and widespread violence resulting in numerous injuries and at least 25 deaths. Hospitals in Tegucigalpa and San Pedro Sula are overwhelmed as they attempt to treat the many injured. Honduras descends into chaos. There is no new investment and many foreign investors close or withdraw from investment projects taking their foreign exchange with them. There is capital flight and currency speculation against the Lempira. The Honduran Central Bank runs out of foreign exchange reserves and can no longer defend the fixed-exchange rate policy. Government attempts at a controlled devaluation fail, and inflation soars. Attempts to placate civil servants with wage increases fail to keep pace with inflation, leading to widespread strikes. Reduced investment leads to growing unemployment, increasing instability.

¶17. (C) Another version of this scenario would be that de facto regime supporters, in their intransigence, force all international electoral technical support to cease and elections are not held at all. Again, there are disturbances and the country descends into chaos. Micheletti creates a national emergency government to maintain peace and stability in the country. He is portrayed by his conservative supporters as the savior of the nation, all the while tightening restrictions on civil liberties. An exiled Zelaya becomes the poster child for a burgeoning leftist movement while secretly attempting to foster instability in Honduras to topple the regime.

¶18. (C) Democracy and constitutional order do not return to Honduras. Honduras remains isolated from the international community. The region is destabilized. Venezuelan President Hugo Chavez holds up Honduras as an example of the failure of the Organization of American States, and Latin American politics become more polarized. The people of Honduras suffer as the United States and other donors decide not to resume assistance. U.S. counter-narcotics efforts in Honduras are severely hampered. The U.S. is forced to abandon Soto Cano.

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